

**INVESTMENT COMMITTEE, WASHOE COUNTY, NEVADA
MINUTES OF MEETING**

THURSDAY: February 1, 2023 3:00 p.m.

PRESENT: Eric P. Brown, County Manager
Abbe Yacoben, Chief Financial Officer
Justin Taylor, Treasurer
Cathy Hill, Comptroller

STAFF: Trenton D. Ross, Legal Counsel, Washoe County District Attorney's Office
Brenda Mathers, Chief Deputy Treasurer, Washoe County Treasurer's Office
Marissa Kuckhoff, Administrative Assistant I, Washoe County Treasurer's Office
Casey McDonald, Office Assistant II, Washoe County Treasurer's Office (Via Zoom)

FHN: Rick Phillips, President & Chief Investment Officer, FHN Financial Main Street Advisors

OTHER: Robert Andrews, Accounting Manager, Washoe County Comptroller's Department (Via Zoom)
Debra Crowley, Senior Financial Analyst, Truckee River Flood Management (via Zoom)
George Robison, Executive Director, Truckee River Flood Management (via Zoom)

The Washoe County Investment Committee met in the Comptroller's Conference Room of the Washoe County Administration Complex, located at 1001 East Ninth St., Reno, Nevada. Treasurer Justin Taylor called the meeting to order, and Marissa Kuckhoff, Administrative Assistant I, called the roll. It was established that quorum was present, and the Committee conducted the following business.

AGENDA ITEM 2 – PUBLIC COMMENTS [NON-ACTION ITEM]

Agenda Subject: "Comments heard under this item will be limited to three minutes per person and may pertain to matters both on and off the Committee's agenda."

Treasurer Taylor called for any public comment and there was none.

AGENDA ITEM 3 – MINUTES [FOR POSSIBLE ACTION]

Agenda Subject: "Possible approval of minutes for the Washoe County Investment Committee's October 27, 2022, meeting. Board members may identify any additions or corrections to the draft minutes as transcribed."

Treasurer Jacobs introduced this agenda item, called for any corrections, and there were none. Chief Financial Officer Abbe Yacoben moved to approve the minutes; County Manager Eric P. Brown seconded. The motion passed unanimously.

AGENDA ITEM 4 – UPDATE AND DISCUSSION REGARDING WASHOE COUNTY'S INVESTMENT PORTFOLIO [NON-ACTION ITEM]

Agenda Subject: "The October-December 2022 quarterly report will be provided, and Committee Members may discuss the report. Presentation by FHN Financial Main Street Advisors on the following: Washoe County's Investment Portfolio Strategy discussion and Economic Update."

Treasurer Taylor introduced this agenda item and Rick Phillips with FHN presented the quarterly report.

ECONOMIC AND MARKET UPDATE

Phillips gave an economic snapshot of the market.

The State of Things from Chair Powell

Phillips reported that Jerome Powell, Chair of the Federal Reserve of the United States, had spoken at a press conference about how in the six weeks between meetings things had not improved, and that rate hikes are ongoing, with one expected in March and another in May. Chair Powell said the economy is significantly slower than last year and housing activity has weakened significantly.

Fed Funds Futures vs The Fed's Expectations: Not On the Same Page

- **Fed Funds Futures vs The Fed Dots**

Phillips explained that the Fed Funds is the short-term rates that controls bank borrowing rates and drives the County's portfolio income. There is a Futures market where people can speculate with real money showing where the market is. The Fed Funds Futures and The Fed Dots aggregates are not on the same page right now, as shown in the graph. There are eighteen members of the Federal Open Market Committee (FOMC), and they have an aggregate of 5.125%. Last February, the Fed and Markets thought Fed Funds would be 1% this February – it is at 4.75%.

Powell: Fed Funds Rate is Getting Close to Or Is Sufficiently Restrictive

- **Fed Funds Rate is Considered Restrictive When It's Above the 2 Year**

Phillips explained that when comparing Market Yield on U.S. Treasury Securities at 2-Year Constant Maturity to the Fed Funds effective rate over time, when the Fed Funds rate rose higher than the Market Yield, it usually indicates that hikes will slow followed by a recession. After the hike prior to the February 1 meeting, the Fed Fund rate had risen above Market Yield, entering the restrictive category.

Longer/Immediate Rates lower... Shorter Rates Higher w/ Future Fed Hikes

Phillips explained that when looking at the last thirteen months of interest rates, the shorter maturities are strongly correlated with the Fed Funds rates. The 10-Year correlates more closely with the 30-Year mortgage market.

Powell: Economic Growth (GDP) Has Slowed Significantly Since Last Year

- **U.S. GDP YOY and CPI YOY**

Gross Domestic Product (GDP) started at 4.9% in September 2021, and peaked at 5.5% in December 2021, before declining to 3.5% in March 2022, and declining further to 0.8%, in March 2023. GDP is expected to decline throughout 2023. The Consumer Price Index (CPI) started at 5.4% in September 2021, rose to 6.7% in December 2021, rose again to 8.7% in June 2022, before dropping to 7.3% in December 2022. It is projected to steadily decline to 3.0% by the end of 2023.

Powell: Expect A Very Large Drop In Inflation This Year – Overall CPI

Phillips showed a graph depicting inflation year-over-year and explained the peak was at 9.1% in June 2022 and dropped to 6.5%. Further, when looking at month-over-month, Phillips explained that the first half of 2022 had very high months, but the second half of the year were low and ended at -0.1.

Powell: Expect A Very Large Drop In Inflation This Year – M2 Dropping Like a Rock!

Phillips explained that another reason inflation is expected to drop significantly this year is the M2 (personal accounts at the bank) leading indicator shows a decline to below zero. The correlation with CPI and M2 is expected to bring inflation down.

Powell: Labor Market is Extremely Tight

Phillips showed two graphs: one depicting 'Available Workers per Job Opening' and the other depicting 'Wage

Growth: Job Switchers vs Job Stayers' and explained that the Fed projects the Unemployment Rate of 3.5-4.5%, or around 1.6 million job losses.

Job Gains Every Month in 2022... But Since The First Fed Hike, Not the Jobs We Want

Phillips reviewed information showing the U.S. Monthly Non-Farm Payroll Job Creation (000's) and showed a steady decline from the peak of 714,000 in February 2022, with a small bump to 537,000 in June 2022, and ending at 223,000 in December 2022. Since March of 2022, 288,000 full-time jobs have been lost and 728,000 Part-time job gains.

What May Get the Fed to Pivot? Possibly a Credit Event and Unemployment

Phillips explained that there are no signs indicating upcoming rate cuts. Weekly unemployment claims have fluctuated, and continuing unemployment claims have started to creep up.

The Consumer Squeeze Continues to Intensify

Credit card balances grew at the fastest pace in at least 20 years in 3Q, while the cost of debt continues to step toward higher, multi-decade highs.

Chief Financial Officer Yacoben asked Phillips why the market is out of line with the Fed? Phillips explained that the Feds are looking at bringing inflation down and the market is seeing signs that rate cuts may be needed.

Powell: Housing Activity Has Weakened Significantly

In 2021-2022, CS Home Prices YOY had the fastest 6-month decline ever. Mortgage purchase applications rose in 2020-2022 but have shown decline. Housing Starts also rose in the 2020-2022 timeframe but have tapered off. Phillips explained that after the Great Recession, builders kept their inventory lower that never fully recovered to pre-recession inventory numbers. Builders are finishing what they have in inventory and not starting new construction, which limits supply.

Reno Home Prices Dropping... But Still Much Higher Than Pre-COVID

Phillips showed a graph of the median listing price in Reno, Nevada, from 2017 through 2022, and explained that the peak was 681K toward the end of 2022, but that has fallen to 599K.

10Y-3M Curve is At a Bone Chilling -115!

Phillips explained that long rates have gone down while short rates have gone up causing an inversion and this can be an indicator of coming recession. Phillips provided information as to when historically the 10-Year/3M U.S. Treasury Curve Inverts 5 consecutive trading days and counted the days that followed until a recession hit, the longest being 522 days and shortest 174 days, with 11 months about average.

The Curve Remains Far From Normal... Typically Means an Economic Storm is Ahead

As of January 23, 2023, the U.S. Treasuries percent yield was higher for shorter term maturities than for the longer term, and Phillips explained that this can be a sign of an economic storm to come.

The "Yield Curve Trap"

Phillips explained that the yield curve is watched and can be an excellent predictor of economic slowdown.

PORTFOLIO METRICS AND INFORMATION

Portfolio Summary

The three main objectives of the portfolio are safety, liquidity, and income. Phillips reviewed charts in the

investment report representing the Sector Allocation, Maturity Distribution, Credit Quality, Account Summary, Month-End Portfolio Book Yield, and Top Issuers. The current market value is less than the book value and there is an unrealized loss. Phillips explained this is a good thing for the portfolio as the yield on the portfolio has more income.

Historical Book Values

The growth of the Book Values was charted from July 2016 through November 2022, and it showed that the portfolio increased substantially to \$887.6 million.

Historical Earning & Book Return Performance

The fiscal year-to-date earnings and the fiscal year-to-date book return were shown by month.

Historical Yield At Cost vs Benchmark

The Investment Management Plan indicates that the portfolio should earn a market rate of return over time.

Holding Report

Phillips highlighted a Certificate of Deposit (CD) on the holding report and explained that the Credit Suisse, NY has had a lot of problems, and there were conversations about selling it. With forty-four days to go before maturity, the credit team at FHN has been watching it closely, and they believe it will reach maturity.

Treasurer Taylor thanked Phillips for the report and moved to the next agenda item.

AGENDA ITEM 5 – COMMITTEE MEMBER COMMENTS [NON-ACTION ITEM]

Agenda Subject: “This item is limited to announcements or issues proposed for future agendas and/or workshops.”

Treasurer Taylor called for any committee member’s comments. County Manager Brown mentioned looking at mission-based investing for the County in the future.

AGENDA ITEM 6 – PUBLIC COMMENTS [NON-ACTION ITEM]

Agenda Subject: “Comments heard under this item will be limited to three minutes per person and may pertain to matters both on and off the Committee’s agenda.”

Treasurer Taylor called for public comment and there was none.

AGENDA ITEM 7 – ADJOURNMENT [NON-ACTION ITEM]

Treasurer Taylor adjourned the meeting.

Attachments to Minutes



Agenda Item 3 -
2022 10-27 Minutes



Agenda Item 4 -
Washoe Co Inv Com